

The California Natural Gas Industry in 2003 and Beyond: Who Will Pay for Needed Infrastructure?

Presentation to the CPUC / CEC
Natural Gas Market Outlook 2006 – 2016 Workshop
on behalf of the
California Cogeneration Council
and
Watson Cogeneration Company

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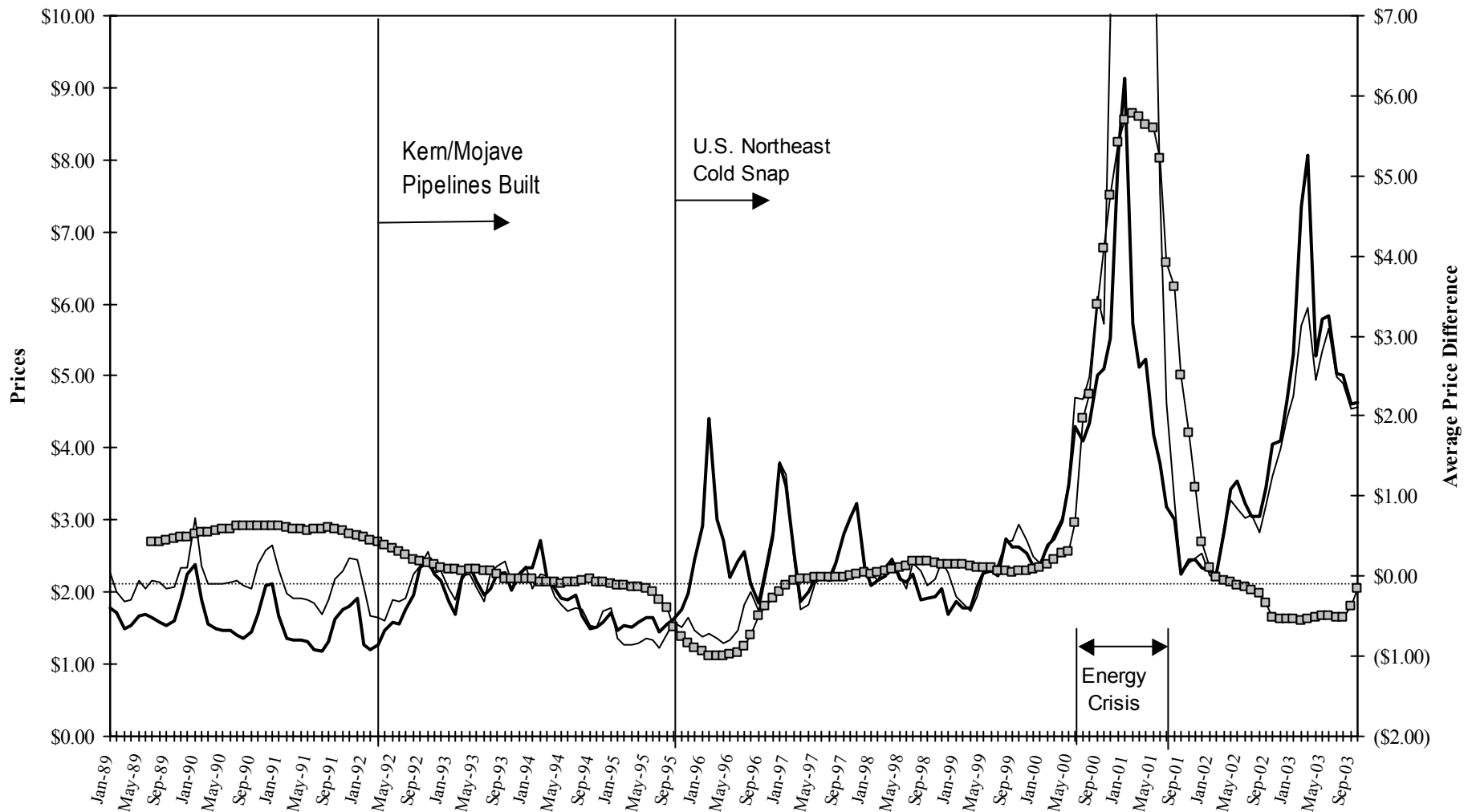
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The State's Gas Infrastructure Appears Adequate for the Next Five Years.

- 👁️ **Supply** 🤞 the importance of access to 🤞 frontier ~~gas~~ basins and the world LNG market.
- 👁️ **Interstate pipelines** 🤞 1.7 Bcf/d of new capacity to California has been added since 2001.
- 👁️ **Intrastate ~~gas~~ pipelines** 🤞 1.4 Bcf/d of new delivery capacity from the California border. Includes North Baja and the High Desert lateral as well as PG&E and SoCalGas expansions.
- 👁️ **Storage** 🤞 new independent storage capacity in northern California.

Henry Hub vs. California Border Price (\$/MMBtu)



Source: Natural Gas Week

— Henry Hub Price — California Border Price —□— 12-Month Moving Average Delta

Who Paid for Today's Infrastructure?

- ☞ The 1992 - 93 and 2001 - 03 interstate expansions were decided (and paid for) by ~~the market~~ of noncore customers (EOR and electric generation) and gas marketers.
- ☞ LDC core consumers have continued to be served almost entirely with ~~legacy~~ interstate capacity.
- ☞ Does the core want access to the Rocky Mountains and world LNG supplies?
- ☞ Pipelines will be built if they can compete for markets.

Have the State's Natural Gas Policies Kept Pace With the Infrastructure?

- ⌘ Rate design, services, and regulations differ markedly between PG&E and Sempra.
- ⌘ How will new supply sources gain firm access to the Sempra gas system?
- ⌘ PG&E Gas Accord II: how closely will the CPUC adhere to cost-of-service principles?
- ⌘ Can interstate or independent pipelines and storage projects compete with the LDCs?

Gas-fired Cogeneration as a Preferred Use of Scarce Gas Supplies

- ☞ Cogeneration's dual production of thermal and electric products is highly efficient and conserves substantial gas resources.
- ☞ Cogeneration supports important California industries and institutions, and is the state's third-largest source of electricity.
- ☞ The CEC's recent Integrated Energy Policy Report recognizes these values.
- ☞ Cogeneration projects can pay for future gas infrastructure if they have a secure market and stable prices for their output.